Winners and Losers

MMMA Newsletter for PF Asia January/ February 2019 By Peter Fitch

We are constantly being bombarded on the news about the latest developments in the Trade War between the US and China and it is still not clear how this posturing for economic power will play out over the coming months. Furthermore, there is virtually nothing industry players can do to influence the outcome. As such we are relegated to the role of spectators whom must adopt and adapt to external forces in order to survive.

Within our industry there are a number of themes which are either being reinforced or are starting to develop.

In 2017 the US imported approximately USD1.2 billion of plywood and USD10 billion worth of wooden furniture from China. In 2018 the US plywood manufacturers successfully petitioned for anti-dumping duties of 190% against Chinese plywood. As part of the Trade War imported furniture from China was given a 10% tariff in March 2018, this tariff is currently targeted to be increased to 25% sometime in 2019. This has disrupted the normal supply chain for furniture and plywood importers in the US.

For many months now US retailers, wholesalers and importers have been busy either switching to domestic producers or frantically sourcing and procuring supplies from ‘other’ countries whom can produce replacement products of the right quality and at competitive prices.

So who are the winners and losers?

For sure China is rapidly losing its largest customer for plywood and furniture. In response many Chinese companies are relocating to other countries to avoid the duties and additional charges. What this process will do is to accelerate the transformation of China from essentially being the Global Manufacturer to a more Balanced Producer and Consumer. China will increasingly develop its own very large domestic market. China was already becoming challenged by higher labour costs and raw material shortages so probably in the long run the US has done China a favour in this respect.

In the US, consumers have seen an increase in the prices for those materials normally imported from China. As for the domestic plywood and furniture producers this will be perceived as being good news in boosting local supply and probably stimulating increased investments in these industries. One has to remember that the US has a plentiful supply of raw materials. Only costs, especially labour was holding back investment in this sector.

At the end of the day the US will not be able to ‘pick up the slack’ domestically for the shortfall in plywood and furniture supply, so we are starting to see the US sourcing from other countries. The countries that appear to be the best at taking the advantage are South East Asian countries such as Malaysia, Indonesia, Thailand, Cambodia and especially Vietnam.

The biggest winner certainly in respect to the furniture and the panel business is Vietnam. This country has proven itself internationally as a nation capable of transforming itself into a very flexible and competitive producer of wood panels and furniture. You just have to look at the growth Vietnam has achieved in these markets. Vietnam is poised to become the second largest producer of furniture globally within the next few years.

With regards Thailand, this country has managed to leverage its abundant supply of Rubberwood to become the undisputed leader in the production of MDF and Particleboard within Asia. The Thai furniture industry is only being held back by its dependence on foreign labour and the relative strength of the local currency. The Thai economy is more focused on and geared to the tourism industry.

Indonesia should be a prime candidate to develop its wood panel and furniture business and to become the regional power house. Indonesia has a large native workforce, a very competitive local currency, a strategic location for exports and an abundant supply of raw materials. Unfortunately, due to past political issues, structural reforms have delayed investment in some essential infrastructure. Indonesia remains challenged when it comes to investment in modern manufacturing facilities.

This leaves Malaysia, in the past we could boast of being the largest, cost efficient and quality producer of Furniture, Plywood, Particleboard and MDF. How times have changed! Vietnam has surpassed our furniture output, Indonesia now sells more plywood to Japan than we do and Thailand has become the largest producer of Rubberwood Particleboard and MDF in the world. This doesn’t mean that all is lost for Malaysia. We still have a very dynamic and active industry within the country. From the private sector will come more innovation, automation, design and value additions processes that will keep Malaysian businesses competitive. There have been many failings in the past where problems were not identified early enough or policies were not conducive to keep up with the latest market trends but hopefully this will change. Malaysia is realising the consequences of an unsustainable depletion of natural resources and an over dependence on cheap foreign labour. The opportunity is presenting itself to embrace new technologies, industrial automation, design branding, value addition and innovation in new materials and processes. “Malaysia Boleh”.